




La Plata Electric Association, Inc.

A Touchstone Energy® Cooperative 

P.O. Box 2750 Durango, CO 81302-2750
Phone: (970) 247-5786 • Fax (970) 247-2674
www.lpea.coop

December 21, 2018

Michael McInnes, Chief Executive Officer
Tri-State Generation & Transmission Association, Inc.
1100 West 116th Ave.
Westminster, CO 80234

Dear Mike:

Thank you, Ken, Brad and Pat for attending LPEA's Committee of the Whole meeting Monday, December 10th. We appreciate the time you took to talk with us about our concerns about Tri-State's debt and the resolution we jointly arrived at regarding the "go-shop" letter.

LPEA's directors and I discussed in detail your comments and responses to the concerns expressed regarding Tri-State's debt at LPEA's regular monthly board meeting on Wednesday, December 12. The Board majority asked me to follow up with you and would appreciate your response to the following:

- Tri-State's bulleted debt as an industry practice, as we stated, is not a concern, except for those notes for which Tri-State is receiving through rates principal and interest repayment, but is not applying the principal to reduce that debt. Bulleted debt that forces principal repayment to the end of WESC's with an expectation of refinancing that debt, coupled with potential increasing debt costs, plus a likely decrease in the value of Tri-State's coal fleet, all point to increase rates through LPEA's WESC contract horizon. LPEA does not feel TS responded to these points, questions, and concerns.
- With interest rates increasing from a period we all agree is low, the risks of principal balances not being reduced and the assumption that an aging fleet of mostly coal plant with the risks we see of 1) likely increases in capital expenditures for things such as CO2 sequestration, and 2) other improved environmental standards, may not sufficiently extend the life of those assets to satisfy prospective lender's collateral requirements. Therefore, LPEA is concerned this could put upward rate pressure on Tri-State rates, that otherwise would not happen if Tri-State used the money it collected in rates and member exit charges to repay those principal amounts.

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Additionally, we discussed with you the issue of governance flexibility. Tri-State's current governance structure and the lack of options presented to its member systems is causing increasing pressure on LPEA and its membership to seek a more flexible alternative. While Tri-State commissions rates and contract committees to address member related issues, those processes have produced little to nothing in the way of flexibility that LPEA has sought for increased local renewable generation. LPEA has actively tried to work as a part of the solution with the white paper I presented to Tri-State, and the current proposal Dan Harms has introduced under Tri-State Policy 118. Coops should demonstrate flexibility through member engagement. LPEA strives to do this with our membership, and we're disappointed with the inflexibility we experience with Tri-State.

We look forward to your response or welcome additional dialog on these issues.

Sincerely,



Michael A. Dreyspring,
Chief Executive Officer

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